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What it takes to navigate the insurance strategy-to-execution gap

Insurance is a notably complex and competitive industry with organisations experiencing balance sheet, profit and loss, and operational pressures from multiple sources. With the business landscape, customer and regulatory requirements all becoming more complex and uncertain, the pressure to adapt and evolve is constant.

Developing a realistic long-term strategy

This year's pressures require insurers to evidence their support for sustainability standards and to address environmental and social injustice issues on top of the regular challenges they face. Insurers have also had to deal with the coronavirus (COVID-19) pandemic. In addition to the considerable human cost, the pandemic has had a profound impact on consumer behaviours and their view of insurers. It has also accelerated the adoption of digital channels by customers. New and emerging technologies and improvements in mobile connectivity have disrupted insurance operating models, with many insurers constrained by the investment in legacy systems.

These factors, the increasing pace of change and the constant need to manage expenses, while generating value, is challenging the capacity of senior executives to develop a realistic long-term strategy. The traditional three-to-five-year planning horizon which was the backbone of strategy and direction setting is under increasing pressure as organisations need to change more quickly and more frequently. Many organisations are adapting by setting a direction of travel which is based on a rolling strategic plan with shorter time horizons.

Such an approach drives a need for organisations to become more agile to ensure their operating model can evolve quickly enough to avoid a disconnect between the strategy and its execution. While many organisations understand where they want to go and are able to define the strategy, few can effectively execute and make the changes required to deliver sustainable results.

If an operating model is the vehicle that translates business strategy into action, then how to develop and implement a model which is fit for purpose is one of the defining questions for any insurer. This is not a simple puzzle to solve and requires a context specific approach for each organisation, taking into account the culture of the business, existing capabilities and the changes required to support the strategic objectives.

Five fundamentals to developing the right operating model to deliver on your strategy

Given that there is no single 'right way' to build an operating model which effectively delivers on strategy, we have identified five key fundamentals, as outlined below.

1. Look beyond just the organisational structure. Many organisations look to drive performance improvement by focusing solely on structural changes through redefining roles and adjusting spans of control, without fundamentally improving the capacity to deliver on strategy. Organisations which have evolved through multiple iterations of uncoordinated or tactical improvement initiatives are missing the benefits and multiplier effect that a holistic, enterprise-wide approach can provide. Stepping back and taking a wide-angle view of the organisation or entity allows all dimensions of operational performance to be examined.

2. Leverage the right combination of skills and capabilities. Today, effective insurance operating models bring together the right combination of skills to combine both digital technologies and operational capabilities. Integrating digital and operational capabilities requires an organisation to undergo a fundamental mind shift, challenge old habits, foster the development of different skills and talents and support the adoption of new working practices. More agile organisations are breaking down traditional siloed structures and investing in smaller, cross-functional teams empowered to work autonomously across specific end-to-end customer journeys.

3. Create a radically new customer 'experience'. Disregarding the processes that are currently in place can be challenging but simply tweaking or improving existing customer service processes overlooks the potential to create a differentiating experience. Most insurers understand the importance of a positive experience but are structured around a series of functional silos which do not reflect the way customers are looking to engage with the business. Stepping back and taking a customer-centric view to reimagine the end-to-end journey provides the insight into what matters most and ensures the new design will meet the genuine needs of the customer while reducing servicing costs.

4. Take the 'robot out of the human'. Once the customer experience has been defined the processes and technologies required can be determined. A common challenge for insurers is integrating new digital processes with existing legacy systems. Intelligent process automation can be used to generate savings, standardise the customer experience and allow roles to be redefined to allow individuals to focus on value-adding activities. The potential for automation of processes is rapidly increasing with advances in artificial intelligence (AI) and machine learning (ML) continually challenging assumptions regarding what activities can be automated.

5. Use data to look at things differently. The rapid increase in the volume of data available and the inherent complexity of interpreting it is creating fresh opportunities for organisations to generate value. Tools including ML, AI and advanced numerical solutions are allowing insurers to conduct analysis previously not possible, improving decision making with the potential to enhance almost every facet of operating performance. Ultimately, the effectiveness of data analytics is less to do with the technology and more about the quality of decision making and the link to an effective business strategy.

A structured and well-managed approach

During the target operating model design process, it is critical to apply a rigorous, structured approach which is anchored by the strategic objectives of the business and examines all dimensions of operating performance. Taking a holistic approach ensures that all improvement options are explored, and no opportunities are left on the table. The constituent parts of the operating model should address to varying degrees the competitive environment, segmentation of customers, products, services, delivery channels, processes, management information, structure and skills, technology, and leadership and cultural considerations.

A blueprint for success

As the primary impetus for initiating change in an organisation, it is important that the senior leadership team are informed and actively engaged during each step of the process to ensure the target aspirations become a reality. The process typically starts with the development of a set of clearly articulated design principles, which are used to drive insight at each stage and ensure that all decisions support the execution of strategy.

Once defined, the target operating model creates the blueprint which includes a visualisation of how individual entities interact to establish a common understanding for all participants of the changes required. A key aspect of the model is to ensure investment and further focus are applied to the areas which will drive the greatest value.

Using the roadmap to plot your way

The next step in the process is to develop the transition roadmap and finally to execute on the plan. As part of the planning process, careful consideration should be given to the overall transition approach. The implementation of the new operating model will potentially draw on a number of different levers, including elements of organisational

design, change management, process reengineering, advanced analytics, process automation, ML, AI and other digital technologies.

The transition is a carefully planned sequence of events where each lever is applied at the right time and to optimal effect. Several intermediary transitions states may be required before the target operating model can be fully implemented.

Looking beyond incremental performance gains

Target operating models are transformational in nature and look beyond incremental performance gains. While deploying a disciplined implementation approach with appropriate governance structures are key requirements, it is often not sufficient to ensure success.

Transformation programmes typically compete with business-as-usual activities and, as a result, can suffer from insufficient horsepower. Not only is the pace of change accelerating, it is also becoming constant. This means that a slow implementation programme rapidly becomes an ineffective one. Many organisations are not structured to support the magnitude of change dictated by a new operating model and given the complexity it is important to resource from the 'A-team', both from an internal and external perspective.

For organisations that are experiencing a persistent gap between the setting of strategy and execution, a move away from uncoordinated improvement initiatives and the formal discipline of defining and implementing a target operating model which goes beyond just the structural elements may be the answer.

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ANDREW MUNZBERG

Senior Director

+44 (0)779 980 0765

andrew.munzberg@fticonsulting.com